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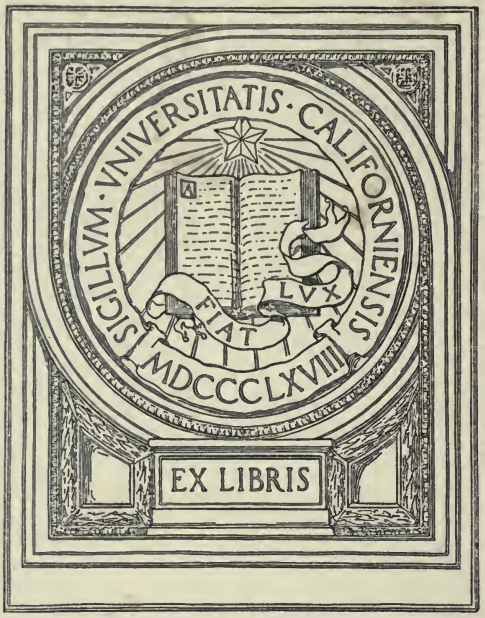

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The Central Pacific R. R. Debt.

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CALIFORNIA'S REMONSTRANCE AGAINST REFUNDING IT.

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THE CENTRAL PACIFIC R. R. DEBT.

CALIFORNIA'S REMONSTRANCE

AGAINST REFUNDING IT.

To the Senate and House of Representatives of the United States:

GENTLEMEN:—In again appearing in opposition to the passage by Congress of a measure for refunding or extending time on the debt of the Central Pacific Company, we beg to call to your recollection the many objections expressed in our memorial on behalf of the people of this State presented to the last session of Congress as well as to the following additional facts and considerations, some of which have been developed since that memorial was presented and others have been suggested by the course the discussion of the proposal has taken.

Reversal of Established Congressional Policy as to Pacific Roads.

I. In granting aid to the Texas Pacific road and to the Southern Pacific Railroad it was undoubtedly the intention of Congress to create a southern route across the continent which would constitute a rival to the central route, on that side, as the Northern Pacific road was designed to do on the North. The purpose was to give to the people of the whole country the advantage of competition in overland transportation. Without accurate knowledge of the extent to which extortion in charges was practised on the Central line (since brought to light by the Pacific Railroad Commission), it was common knowledge that the charges were excessively high, and the creation and maintenance of competing roads were recognized as necessary. Therefore to insure their construction and maintenance aid was liberally granted by Congress. Independent of its enormous subvention in bonds, the Central Pacific Company received as a donation of land aggregating, after all deductions, 8,000,000 acres, worth at minimum government price, $20,000,000, but estimated at more by themselves; their sales down to December 31st, 1882, having produced an average price of $4.85 per acre. (Vid. Report of December, 1882, pp. 57, 59.) The Southern Pacific land grant in California amounted to 10,445,227 acres, worth at minimum government price $26,113,175, but of which

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their own report of December 31st, 1882, says "a very large portion of them is choice agricultural and timber land and will command a much higher price." In fact the subsequent table in same report shows the average price so far to have been $4.38 per acre. (An. report December 31st, 1882, pp. 43, 44, 51.) This beneficent and well considered policy of Congress in pursuit of which it has so bountifully endowed these two companies has been deliberately and formally set at naught by the managers, who to prevent the competition designed by Congress, have leased the Central Pacific road for *ninety-nine years*, from April 1st, 1885, to the owners of the whole stock of the Southern Pacific Railroad, and both roads are thus put into common management. The proposed refunding act distinctly confirms this lease, so far as Congress has the power to do so, and threatens penalties against the abused stockholders of the company should they seek to avoid it as a fraud on them! The chief objection to it on our part is its direct hostility to the deliberate and beneficial policy of Congress, which it distinctly reverses in the interest of private parties; a minor one, not however without weight is that it aims to fasten on the stockholders of the company a lease by their trustees in fraud of their rights, which they are now preparing to vindicate, by legal proceedings. This is unjust to them. The method by which the Central Pacific managers retained control of the company after parting with all their interest will be shown further on; what is important here is that the real parties in interest have at last awakened to the wrong done them, and are preparing to claim their rights, and return to the policy of an independent existence and operation designed by Congress; and this is the moment at which it is proposed to enact, as in Section 19 of the pending bill, S. B. No. 2894, 54th Congress, 1st Session, *that if this fraudulent and infamous lease be annulled or cancelled*, even by decree of a Court, that act shall entail the immediate maturity of the whole debt due the United States at the option of the President! The government is thus made to cast the sword and belt of Brennus into the scale wherein the defrauded stockholders are weighing the cost of obtaining justice against their dishonest trustees! Surely Congress will shrink from enacting a law to forbid people who have been defrauded from seeking redress under such a heavy penalty!

False Pretences to Congress—Concealment of Material Facts.

II. The indulgence and extension of time here involved are asked under false pretences the disengenuousness of which should forbid entertaining the proposal. The demand for time to pay is based on the suggestion of poverty on the part of the debtor, whose earning power it is said cannot reach beyond the pittance proposed to be required by the pending bill, but the pretense of poverty is entirely false. The Central Pacific Railroad Company is paying dividends to its shareholders to-day, *with promise to double them as soon as the bill passes*, and it has very large means, money claims, which should be called in and applied to the payment of its debts. Some of these are as follows:

I. Claims against its former directors and managers amounting to many millions, for misappropriation of its funds and property by means of fraudulent contracts and dealings with themselves through the disguise of construction companies; the Contract and Finance Company, the Western Development Company, etc.

II. Claims of great magnitude against the Southern Pacific Railroad Company, its successful rival in business, to be explained below.

III. Claims against its directors for fraudulent mismanagement whereby its revenues have been impaired for their own benefit.

Of these claims in their order. The proof of the dividends paid, afterwards.

1. Claims against its directors for misappropriation of funds, etc. The report of the Pacific Railroad Commission shows that the assets and resources of the Central Pacific Railroad Company were diverted and appropriated to their own private gain and in fraud of the company by the original directors, Huntington, Stanford, Crocker and Hopkins, through the instrumentality of construction companies and gives approximately the amount stolen. These proceedings are now in their outline familiar to all well informed persons, and altogether the frauds practised in the construction of the Pacific railroads are generally regarded as the most disgraceful public scandal in the annals of the country. No public man has ever dared to defend them, though several were shown to have profited by them, and were relegated by public opinion to merited obscurity; they have never received even tacit condonation from Congress, and to pardon them now, by extending the time for payment, as if the liability were an ordinary debt, would be to affirm by act of Congress that in the judgment of that body the acts in question came up to the standard of morals properly applicable to the disbursement of public funds, intrusted, in a moment of great public peril, to the honor of private citizens. Better by far lose the whole amount of the debt than affirm such doctrine. But the debt need not be lost; every dollar of profit gained by these dishonest directors can be yet recovered by the company or by a receiver appointed in a foreclosure representing the interests of creditors and stockholders. The company has never brought such suit because its management has ever been controlled by the perpetrators of the frauds or those deriving from them. Individual stockholders have from time to time sued on behalf of the corporation, but though vigorously defended not one of them has been allowed to proceed to judgmeut. They have all been compromised for amounts and on terms which implicitely admit guilt. "*The allegations*," say the friendly majority of the Pacific railroad commission in their report (page 75) "*contained in these complaints were such as would* "*compel men of honor, if those allegations were false, to defend themselves* "*at any cost. It appears from the evidence that all these suits were* "*settled, and that the stocks owned by the plaintiffs were bought at rates* "*varying from $400.00 a share to $1,000.00 a share.*" None of these settlements however condone the wrongs done the company, and no statute of limitation has barred its right. That right is an asset of great value, for the responsibility of Mr. Huntington, individually, and of the Crocker estate, are undoubted. The latter has been fortunately kept undivided by transfer to a corporation composed of the heirs, and is distinctly recognisable in present hands.

II. and III. Claims against the Southern Pacific Railroad Company, and Claims against its own directors for fraudulent mismanagement of its business. These for brevity will be treated together, but to do so requires some preliminary explanations.

The California Railroad Combine—How Composed—Its Continuity—The Southern Pacific Company.

It must then be premised that the management of the Central Pacific road has been substantially unchanged from its organization to the present day. When the *personnel* has varied the transfer has been from brother to brother, from father to son, from uncle to nephew, or from deceased to surviving partners. There has been an absolute continuity of design, system, policy, methods and practices from the beginning so that we may speak of the management at all times as continuous. The form of the combine remained unchanged down to 1884, when it took a corporate shape, as to the "Southern Pacific Company."

The original Central Pacific combination consisted of Collis P. Huntington, Leland Stanford, Mark Hopkins, Charles Crocker and E. B. Crocker. They undertook the building and financing of the Central Pacific road and shared the profits equally. Whether they were technically partners is disputed and not here material. The last named associate died first, and as was natural the survivors bought up his interest. Mark Hopkins died next, intestate and childless; his widow retained his interest and took his place. The others were now growing old and to husband their energies the survivors sought a younger associate to share their labors. They sold an interest of one-fifth to David D. Colton and took him in. By this time they had branched out into extensions of the Central Pacific road, northward up the Sacramento Valley, and southward through that of the San Joaquin, and building the Southern Pacific road. Colton was very active in the management. He died however, quite suddenly from an accident, and as he had not been long enough in the concern to become an essential part of it; and left no representative who could contribute the services that he had rendered, it became necessary to buy his interest. This was done, quite promptly, but in a manner and under circumstances, that led to a subsequent action by Mrs. Colton to set aside the sale, and have an account taken of the affairs of the concern. In the course of this trial, which was contested with great obstinacy, was brought to light the correspondence between Huntington and his associates which has since become so famous (or infamous). It forms a part of the transcript on appeal.

The Colton incident drew the attention of the surviving parties to the danger that menaced them, as their numbers continued to grow less. If each successive death were to involve a purchase of the deceased's interest by the survivors, what would be the lot of the longest liver? Mr. Huntington is credited with the invention of the idea of obtaining a charter of incorporation for themselves; surrendering to such corporation the shares of stock held by the individuals in the various railroad companies they had formed, and taking, in exchange for it, stock in the new company. This plan was adopted, and a legislative charter was obtained from the State of Kentucky for the Southern Pacific Company. The original proposal was to have the stock of the new company held equally by the four remaining associates, viz: one-quarter each by Stanford, Crocker, Huntington and Mrs. Hopkins; but at the last moment Mr. Huntington recurred to the annoyance they had previously experienced from their inability to deny that the Southern Pacific and Central Pacific Companies were in fact composed of the same individuals (referred to in his letters to Colton), and suggested taking in an additional associate, and selling him a

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small interest. This was acceded to and a fifth shareholder taken in; but he presently tired of his purchase and sold his shares to Huntington, or fell under his control, and thus it came about that Mr. Huntington united with *any one* of the other parties controls the action of the Southern Pacific Company. Mrs. Hopkins having remarried in her old age, on her death left a will in favor of her youthful husband, a Mr. Searles. This gentleman, having other tastes, has not taken personal part in the railroad management, and thus Mr. Huntington, by his acquiescent coöperation, has come to wield the whole power of the Southern Pacific Company, and his single will reverses the deliberate policy of Congress in pursuance of which it has granted away over a hundred million acres of the public domain, 10,445,227 thereof to the Southern Pacific Railroad Company of which he then was and practically still remains the controlling owner. Being a Kentucky corporation, the Southern Pacific Company organization is not governed by the laws of this State wherein its business lies, and the proportional representation of stockholders in the direction allowed by California law has no place. The other parties in interest are therefore indebted to the consideration of Mr. Huntington for their positions in the board, and must dance to such music as he sees fit to play. He is the president of the company, and is no "*King Log!*" He controls everything, and is to all intents and purposes the company.

What Property The Southern Pacific Company Owns.

It never had any cash capital. The stocks held by the organizers were transferred to it, at some agreed prices, bearing no relation to their actual value and its stock issued in payment therefor. Thus it owns the stocks of all the other railroad and transportation companies which its managers have from time to time built or purchased, except the Central Pacific, and nothing more. A few shares of each are placed in the names of dummies in their employ, or under their control, to qualify them as directors of the various companies, and thus the doings of these corporations are dictated and controlled by the single will which controls the Southern Pacific Company. As every road whereof it owns the stock is mortgaged for far beyond its value or cost, the value of the stocks which constitute its whole capital is obviously but nominal. Whenever additional property is acquired, it is at once duly mortgaged for all it will possibly bear, and subject to such mortgage transferred to or held by the Southern Pacific Company.

The Southern Pacific Company chooses the directors and controls the management of all these roads of which it is the *lessee*, besides owning the stock. It finances them all, gets all their cash into a common purse, manages their sinking funds, lending the money of one to the other, and that of the other to a third, and so round the circle till it comes back to where it started, and the whole thing becomes a mere matter of book-keeping, needing no unnecessary and inconvenient payments of cash. The lease of the various roads other than the Central Pacific is styled the "*Omnibus Lease.*" It has been lauded as a method of insuring unity and economy of management, etc. The principal feature however, which a studious reader will be apt to recognize in it, is a clause, which reversing the old rule or reserving a rent to be paid by the lessee to the lessor, provides that *the lessees shall have ten per cent of the procedes of the business for managing and taking care of the property of the company whereof they own the whole stock!* While the lessees continue to own all the stock, this may be harmless;

but whenever they shall put any of those stocks on the market and succeed in making sales of them, the purchasers may be expected to discover its radical dishonesty when they find a portion of the stockholders in their capacity of lessees, absorbing ten per cent of the proceeds of the business before leaving a cent for them.

Members of Congress should also be informed that the Pacific Improvement Company (commonly written P. I. Co.) is another of the Protean corporate forms under which these railroad managers mask their operations, just as the Western Development Company was before it, and the Contract and Finance Company before it in turn; continually changing in name, ever the same in fact.

Returning from this necessary introduction of the characters we come to the gigantic fraud on the Central Pacific Company, perpetrated by its managers in 1880. It consisted essentially in *using the credit and means of that company to build, for their own benefit, the Southern Pacific road as a rival line*, designed and calculated to destroy the value of the Central! The process of this was as follows:

The Situation in 1870. Commencement of the S. P. Road.

What is now called the Southern Pacific Railroad began with the construction of a road from San Francisco, 80 miles south to Gilroy. It was completed in 1869. Mr. Huntington intimates—in fact asserts—that it was done by his Southern Pacific Railroad Company; but this is one of those curious lapses of memory, to which some persons are subject, by which they not only forget what occurred, but remember exactly what did not! The fact is neither he nor any company he was connected with built a single mile of it. It was built by Peter Donahue, Henry M. Newhall and Charles B. Polhemus, (the last named is still living) under the corporate name of the San Francisco and San Jose Railroad Company, and that of the Santa Clara and Pajaro Valley Railroad Company; to build and equip it cost about $1,300,000 and it was in use as a local road. In 1865 a ompany was organized in San Francisco, by eight or ten gentlemen,—William T. Coleman, Timothy Guy Phelps, Charles N. Fox and others, under the name of "The Southern Pacific Railroad Company," but it had no actual capital, and built no road; was in fact a mere paper organization. There was another company organized in 1870 called the California Southern Railroad Company, which was in similar plight. By this time some progress had been made in selling the shares of the Central Pacific Company, though Mr. Huntington and his associates continued to retain its management. They decided on building another road which by its more advantageous location, more favorable grades, and preferable approach to the city of San Francisco direct, would be able to successfully rival it in business. With this view they purchased from Messrs. Newhall, Donahue and Polhemus, the stock of the two roads first above mentioned (from San Francisco to Gilroy) and from the organizers of the second two companies named, their good will and corporate names, and in October 1870, consolidated the four companies into one under the name of the "*Southern Pacific Railroad Company.*" The route designated was from San Francisco southwards through the Santa Clara and Salinas Valleys, across the coast range of mountains into the San Joaquin, and up that valley, and over the Tehachapi Pass to the Colorado River. Its nominal capital was $30,000,000. Its actual capital the road from San Francisco to Gilroy, and its equipment, nothing more, and that mortgaged for $968,000.

Meantime the Central Pacific Company had constructed a branch of its road extending southwards from Stockton up the San Joaquin Valley, some 150 miles, to a place called Goshen, a mere hamlet—but the point at which the projected Southern Pacific road would intersect the Central. During the winter months succeeding the purchases above mentioned, the parties succeeded in procuring the insertion in the Act of Congress of March, 1871, of a land grant in favor of the Southern Pacific Railroad Company, and soon thereafter began to build from Goshen onwards towards the Colorado river and the State line.

There was no *bona fide* subscription to the stock of the Southern Pacific Railroad Company, nor any contribution of cash capital. The whole business was managed through the instrumentality of a construction company composed of the managers of the road itself, who were also the trustees and managers of the Central Pacific. This construction company contracted with the Southern Pacific Railroad Company to build and equip its road for all the stock of the company and all its bonds. The original intention was to issue $40,000 of stock and an equal amount of bonds for every mile of road built, but this excessive capitalization seems to have been afterwards reconsidered and made somewhat less.

They began building the S. P. road from Goshen, above named, southwards, in 1872, and in that year constructed, say, 21 miles. In 1873 they built about 20 more, and in 1874 some 34 additional, making 75 in all in that valley; during the same period they added some 81 miles to the length of the road from San Francisco to Gilroy. This was the situation at the commencement of 1875.

The Fraud.

In July, 1875, the Southern Pacific Railroad Company executed a mortgage for $46,000,000 to trustees, dated April 1st of that year, covering the whole of their road existing and contemplated (being, as described, 1150 miles in length, or at the rate of $40,000 per mile of road); a large amount of these bonds was issued to the construction company, and the problem before Mr. Huntington and his associates was to sell these bonds, and, until sales could be effected, to give them an apparent or prospective value, which might meantime render them available as collateral security.

People investing in railroad bonds naturally look at the earnings of the road, as a guide to estimate values; and as the San Joaquin Valley south of Goshen was then quite unsettled, and could furnish neither freight nor passengers to the new road, they determined to make a show of business over it by using the credit of the Central Pacific Company. For this purpose they made a lease dated September 1st, 1876, to the latter company of the branch of the Southern Pacific railroad extending from Goshen southward to the Colorado River, *constructed and to be constructed*, for six thousand dollars per annum, for every mile thereof built and ready for operation. The rent would thus increase by six thousand per annum with every additional mile of road built. *From this rent, however, the lessees were permitted to deduct $3,000 per mile per annum for operating expenses.* And, probably to divert the attention of the Central Pacific stockholders from the importance as well as the dishonesty of this lease, it was made terminable by a notice of sixty days, as if it were a mere temporary arrangement. The very circuitous mode here resorted to of reaching a rent of $3,000 per mile per annum naturally suggests a sinister design,

and there was one quite in harmony with the whole knavish proceeding of which it formed a part. The object was to enable the Southern Pacific railroad to appear in the financial publications of the day as earning from this branch of its road, while yet unfinished and without a terminus at either end, $6,000 per mile per annum, and being operated at fifty per cent. of its gross earnings! Obviously, a road through a new country which, while yet in an unfinished condition—running, in fact, from no place to no place,—could make such a showing as that, had before it the brightest of prospects. The terms of this fraudulent lease, therefore, were arranged for the purpose of deceiving the public, by holding out false and delusive prospects of the earning capacity of the road, and thus rendering the disposal of the bonds more easy. The making of this lease and the particular form of reservation of rent in it were both parts of a dishonest contrivance to bolster up the credit of the Southern Pacific Railroad Company, at the expense of the Central, and to enable Messrs. Huntington and associates, while acting as directors and trustees of the latter company, to hypothecate and afterwards sell the bonds of the former. It need scarcely be said that this constituted a gross fraud on the Central Pacific Company and its stockholders, and that under our law, as under that of all civilized countries, the last-named company is entitled to recover from its dishonest trustees all gains and profits of every kind derived from it, and this without any participation in or allowance for their labor or risk in the venture.

The disgraceful history of this issue of bonds of the Southern Pacific R. R. Co. is not yet all told, nor the published evidence of the fraudulent design exhausted. They were inscribed on the stock list and offered on the New York exchange; bids, offers, washed sales and all means (even down to a fictitious sale of a lot of them under an execution) were resorted to to give them currency, but without success; the gudgeons of Wall Street refused to bite; and down to March, 1880, the bonds remained in the hands of the construction company, unsold and practically unsaleable.

About the period last mentioned, Messrs. Speyer & Co., a firm of bankers in New York, pointed out the weak spot in Mr. Huntington's case to him; *it consisted in the right to terminate the lease by sixty days' notice*, and they offered if that defect were remedied to their satisfaction to take up the loan and float the first ten million of the bonds at a price agreed on. They agreed to take two millions of them at ninety, and got an option of eight more. As if to emphasize the fraud on the Central Pacific Company, and illustrate it, if possible, more clearly, the bankers insisted on, and Messrs. Huntington & Co. consented to a modification of the lease to the Central Pacific Company, *whereby it was made to continue in force absolutely for five years, and thereafter, until the Southern Pacific should have extended its road so far as to connect directly by rail with the railroad system of the Atlantic side, not exceeding ten years in all.* This modification of the lease was made and executed early in 1880, and the preliminaries having all been arranged, and the comedy fully rehearsed, there appeared on the morning of March 9, 1880, and the three following days, in the "New York Tribune," an advertisement, announcing that subscriptions would be opened on the 11th of that month, and closed on the 12th, in *New York, Boston, Frankfort-on-Main, London, Amsterdam, and Berlin*, for ten million dollars of six per cent. first mortgage bonds of the Southern Pacific Railroad Company (describing them), offers to be

made to certain banking houses of those cities respectively. This advertisement was conspicuously displayed, and among the inducements offered were that the bonds "were secured by a first mortgage on the railroad and telegraph line, rolling stock, fixtures, land and franchises of the Southern Pacific Railroad of California." That the total length of the projected road was 1,150 miles (specifying how made up), "of which 712 miles were completed and in operation," divided into the Northern and Southern divisions, the former extending from San Francisco to Soledad, and from Carnardero to Tres Pinos, in all 161 miles, and the latter from Huron to Yuma (with a branch of the road from Los Angeles to Wilmington), in all 551 miles, and interesected at Goshen by the San Joaquin branch of the Central Pacific road. That the net earnings of the southern division (through rental to C. P. R. R. Co.),

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that the San Joaquin Valley Branch of the Central Pacific Railroad furnished the Southern Division with an outlet both to San Francisco and eastward over the main line of the Central Pacific Railroad, and that "in view of common interests the Central Pacific Rail-"road Company had taken a lease of the Southern Division of the "Southern Pacific Railroad of California, for a period of not less "than five years, from January, 1880, and by the terms of the lease if "a railroad is not completed in five years from that date, so that "there is a connection of the Southern Pacific Railroad of California "with the eastern system of railroads on what is known as the 32nd "parallel line, the lease shall be extended until such connection is "made; provided such extension does not exceed five years longer, or "ten years in all from January, 1880. That by the terms of the lease "the net rental agreed to be paid during the continuance of this lease "and any extention thereof shall be $250.00 per month, or $3,000.00 "per year per mile (being at present on about 551 miles, equals about "$1,650,000.00 annual rental), 'and if for any cause, it' shall be re-"duced by mutual consent of the parties, that the annual amount of "such rental reduced shall at least be sufficient to pay all the interest "that has been or may be agreed to be paid in any one year on any "bonds of the Southern Pacific Railroad Company of California, "outstanding during the continuance of this lease."

The modifications in the terms of the lease indicated in this advertisement seem to have been all that was required by the bankers, and promptly after the time for closing the bids, without waiting to hear from London, Frankfort-on-Main, Amsterdam or Berlin, it was announced that the whole block of bonds had been taken by Messrs. Speyer & Co., and thereafter they were gradually peddled out on the New York market and ultimately found buyers. The sales of these bonds thus introduced in the stock exchange by the credit of the Central Pacific Company aggregated over $32,000,000 and at an (estimated) average price of about 95 per cent. The sales from the land grant obtained by the building of the road have amounted to over ten million dollars, and much remains unsold. All these large sums should be accounted for to the Central Pacific Company as the fruits of the fraud. Thus the dishonest directors of the Central Pacific road procured the means for constructing the Southern Pacific, which by its shorter mileage between the oceans, its easier grades, and the preference given it

in the routing of freight, has been almost the ruin of the Central Pacific. To ensure the disastrous result however, the managers determined to cut off its local freights also, and to this end constructed (in the names of companies ultimately consolidated with the Southern Pacific) a substantially parallel road through the San Joaquin Valley on each side of the Central, ready to intercept every pound of freight approaching it on either side!

Other Frauds in Central Pacific Management.

1. We have already mentioned the ninety-nine year lease of the Central Pacific road to the Southern Pacific Company (of Kentucky). Considering the relative positions of the several parties, the ownership by the lessees of the whole stock of the rival road and that of the Southern Pacific Company's stock by those managing the Central Pacific direction, it cannot be doubted that this lease would be pronounced by any court of equity a gross fraud on the Central Pacific Company. Its ruinous character is obvious.

We will not dwell on the diversion of traffic from the Central to the Southern route, though the loss of revenue by the former from that cause must have been enormous. Owning all the stock of the one road and having no interest in the other, while they managed both, it was perhaps but natural for such parties to favor their own road at the expense of the other. The power to do so was obviously a principal motive for the ninety-nine year lease, the terms of which, it may be remarked, left them at liberty to change the rent from time to time practically at discretion. To assert that they exercised with impartiality great powers so dishonestly obtained would be to invite derision, not belief. The Kentucky corporation as lessee of both roads did the carrying, issued the bills of lading, etc., so that unless the shipper took special pains (for which there was rarely a motive) to expressly direct his freight sent over the Central route, it was at the discretion of the carriers, and naturally went by the Southern. The arrangement of time schedules, greater promptness in delivering freight, adjusting reclamations, and like considerations, helped to determine the choice of shippers in the same direction. The revenues of the Central Pacific road rapidly fell off, and its dividends went down to three and two per cent., and finally to zero.

2. For many years after the completion of the Central Pacific road, its managers were the largest borrowers of money in the San Francisco market, and large borrowers wherever they could obtain it. Any person having a sum of any magnitude to loan could have from them the note or the endorsement of the Central Pacific Railroad Company. *None of this money was for the use of the Central Pacific Company, but for that of the managers;* yet the credit of the Central Pacific Company was strained to the utmost to procure it. An ordinary broker's commission on these loans of credit would amount to a large fortune.

It would be difficult to put a limit to the recovery which the Central Pacific Company is entitled to from its dishonest managers and its rivals for these frauds, which are probably but specimens, of which there are plenty more to be brought to light by a proper investigation. This seems to be the most appropriate place to account the latest chapter of Central Pacific history, which has indeed something of the grotesque about it.

IV. The appeal to Congress to refund the debt at a low interest is made on the suggestion of inability to pay. Hon. Grove L. Johnson,

of the House of Representatives, published, during the recess of Congress, a long letter defending the pending measure, substantially on that ground. He thought that at any higher rate of interest than two per cent. the company could not pay the debt without rates of freight that would be ruinous to California shippers. He could not have been aware when he did this—in fact few would listen with patience to such an argument, if they were aware,—that *at the very time Mr. Huntington is posing the company before Congress in forma pauperis, he has been paying the stockholders dividends on their shares and is under promise to double the same as soon as the refunding bill has been passed.* The payment of this dividend has not had any publicity, has in fact been practically a secret, but it is the fact, and the history and proof of it are about as follows:

The Secret Dividends of 1895, 1896, and How Brought About.

It is known that the great bulk of the Central Pacific stock is held in England. It was sold to English purchasers between 1875 and 1890 by the device of paying large dividends on it while at the same time the sellers were building the Southern Pacific road to take away its business as above related. The Englishmen were deterred from transferring their shares to their own names by the artful suggestion of individual liability for corporate debts, and more especially for the Government subsidy bonds under California law. Their holdings were therefore represented by certificates in the names of former holders, endorsed in blank. To facilitate concealment of ownership a form of certificates was invented, with dividend coupons attached; so that the holder need not a receipt for his dividends or even present himself to get them. No one could know his identity except the banker with whom he deposited his coupons. These former holders were employees of the company to whom the managers had transferred their shares in lots of ten, twenty, thirty, fifty, one hundred, two hundred, three hundred, and five hundred shares, which, being endorsed, passed from hand to hand by delivery only. *Proxies for voting were taken in all cases from these employee-shareholders, which as the stock remained on the companies' books in their names have enabled the sellers ever since to elect the directors and control the management of the company.* Dividends paid under a former arrangement ceased some two years since, and after a period of waiting, the Englishmen became dissatisfied with the management, and after meetings and consultations despatched to this country Sir Rivers Wilson, to investigate, threaten, and get what he could for them from the directors of the company. Sir Rivers came to California, interviewed the officers of the company, made his examinations, etc., and was reported in the papers after his return to the East as having arrived at a compromise with Mr. Huntington, the President of the Southern Pacific Company After this settlement he was reported in the press as proceeding to Washington and there contributing his effort in favor of the refunding bill of last session. On his return to England, the results of his mission was communicated to his constituents, with the recommendation that they transfer their shares to their own names, and take the control of their own property. The substance of his negotiation soon became known on the London stock exchange, where the shares were dealt in, and the London "Economist," a financial journal of high standing, noticed the matter as one of public interest, in its issue of March 23rd, 1895, in the following terms:

From the "Economist" (London), March 23d, 1895, page 385.

THE POSITION OF THE CENTRAL PACIFIC.—Some slight compensation it "appears Mr. C. P. Huntington is willing to make to the Central "Pacific shareholders, since he has stated through Sir Rivers Wilson "that he will undertake to pay one per cent. per annum in the shape "of dividends until 'satisfactory legislation has been obtained for the "adjustment of the company's debt to the government,' after which "rather vague date, two per cent. per annum is to be paid for the "period of two years, during which the shareholders will have time to "review their position, and to consider the advisability of endeavoring "to effect an arrangement or a more permanent and more profitable "character. Sir Rivers Wilson takes the same view of the position of "the company as that of the *Economist*, and indeed that of most of those "who have considered the facts. The Central Pacific is at present in "the grasp of the Southern Pacific, which is virtually Mr. Huntington "in what may be termed a corporate form; it would have remained a "profitable undertaking if the present lessees had not worked its ruin. "In the future probably it can be best worked in connection with the "Southern Pacific, provided equitable terms can be arranged; and "finally as there is nothing really to fear in the theoretical liability "on the shares, holders should at once without delay, register, so as to "make their voting power efficient. If that be done, and if terms can "be made with the government, English investors may ultimately "suffer less loss than once appeared probable. They will however, "have to be very careful in approaching Congress. They must re-"member that they have no claim to anything save that which is "given by the strict letter of the law. If they have been swindled by "the 'bosses' in control of the Company, which is often alleged, not "only have many others suffered in the same way, but few have been "guilty of so much contributory negligence. It has also to be remem-"qered that if the shareholders have not fared well, the United States "government made a bad bargain over the subsidy which it granted "to the Central and Union Pacific Companies. And, of course, it is "scarcely necessary to assert that the fact of the credit of the United "States having so greatly improved is no reason whatever why one of "its debtors whose credit has not improved, to put it mildly, should "get free from the obligation. As a matter of fact, the American "government, does not, we think, want to foreclose, for simply as a "question of expediency, that would be unadvisable, and therefore if "the Company sues, as it is bound to do *in forma pauperis*, Congress "will probably come to some fair arrangement despite the apparently "hostile position which it has recently assumed."

Four weeks after the publication of this article, Mr. Huntington replied to it under his own signature, as follows:

Mr. Huntington's Reply.

From the "Economist" of April 20th, 1895, page 519.

"MR. HUNTINGTON AND THE CENTRAL PACIFIC RAILROAD.—To the "Editor of the *Economist*; Sir:—Some one has sent me a clipping "from your issue of March 23d. The *Economist* has been sent to me "occasionally for years, and I have heretofore considered it one of the "best financial papers published in England. That being so I do not "think its editor would knowingly do any individual or corporation "wrong.

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"I was the principal factor in building the Central Pacific road; "that is I organized the company, and sold all the securities, I believe "I intended to deal fairly with all people having dealings with the "company, and I believe I have done so.

"The Government, as you know, granted aid to two other lines— "the Northern Pacific and Atlantic and Pacific (Atchison Topeka and "Santa Fe)—which not only divided the tonnage, but cut down the "rates; and later other roads were built, so that there are now sub- "stantially, seven roads crossing the continent, when one double "track railroad could do all the business that is being done, and "much more, without any particular inconvenience.

"If any body has any charge to make of any particular thing that "I have done that was unfair, I would like to have him tell me what "it is. No one up to this time has told me, or intimated that there "was any particular charge, but in a general way, some of the Cali- "fornia newspapers and some of the discharged *employees* have been "wildly throwing words into the air to the effect that something had "been done somewhere or at some time, but they do not state where or "how.

"The Central Pacific should have cost twice as much to build as any "other road did, as the physical obstructions to overcome were much "greater, and all the cost of construction, for grading, timber work, "such as the bridges, ties, etc.—in fact, everything that was furnished "in the building of the road, excepting rails, fastenings and rolling "stock, was paid for in gold in the sixties, when gold was at a high "premium. The coal we had to use as fuel, cost us for many years "an average of over eight dollars a ton, which is immensly more than "it cost the other aided roads, and still the Northern Pacific is in the "hands of a receiver, I believe for the second time, the Atchison "Topeka and Santa Fe (Atlantic and Pacific), is in the hands of re- "ceivers for the second time, and the Texas Pacific, I think, has been "in the hands of the receiver three times; whilst the Central and "Southern, I believe have paid all their debts, and I have no doubt "will be able to do so in the future, with the exception of the debt "owing to the Government, upon which it is hoped Congress will grant "an extension at a low rate of interest, such as the companies can "meet and still pay something to the shareholders.

"I am very truly yours,

"C. P. Huntington.

"New York, April 3rd, 1895."

Mr. Huntington, it will be seen, does not deny the correctness of the Economist's statement of the agreement, but pleads in confession and avoidance, that he was the chief factor in building the road and sold all its securities, and that he has not put it in the hands of a receiver, he adds that he has not been informed of any specific charges of mis- conduct against himself. This defense, so far as it goes, is partly true. Mr. Huntington has not put the road into the hands of a re- ceiver, probably because he preferred to receive himself. But he does, by his eloquent silence, distinctly confess that to pacify the English stockholders, represented by Sir Rivers Wilson, he agreed with that gentleman that they should be paid in the shape of divi- dends on their stock one per cent. per annum until satisfactory legis- lation has been obtained for the adjustment of the company's debt to the government, "after which two per cent. per annum should be paid

for two years more," to permit the shareholders to review their position and consider the advisability of endeavoring to effect an arrangement of a more permanent and profitable character. These statements can leave no doubt of the agreement with Sir Rivers Wilson, but they are at the moment of writing confirmed, if confirmation were needed, by an interview with Col. C. F. Crocker, Vice-President of the Southern Pacific Company, published in the San Francisco "Chronicle" of December 2nd, 1896, wherein he says: "The Central Pacific is not on velvet, but it is not in the depths of despair into which the Northern Pacific has fallen, *and the stockholders have been receiving a small dividend every year.*" The payment of this secret dividend is then established.

Amount of this Largess—By Whom Paid, and Why—Falsifying Annual Reports to Conceal It.

To pay a dividend of one per cent. on the stock of the Central Pacific Company requires $672,000 dollars, an amount too large to be overlooked by a slip in book-keeping, or to be easily concealed under some general head. And the question whence comes the money wherewith they are paid is not without importance; for these great railroad companies, whether we regard them as quasi-public corporations, or as organized solely for private gain, are certainly exercising great public franchises and trusts which affect large numbers of people. They publish annual reports of their dealings and business, on the truth of which millions of dollars are invested, frequently the funds of unprotected and helpless people, and even legislation is predicated. The publication of falsehood or the suppression of truth in such reports is, therefore, an offence against public morals of the gravest sort, which not even the most devoted partisan would venture to defend, or propose to condone. We have searched the annual reports of the Southern Pacific Company and of the Central, both those made under oath and laid before the State Railroad Commissioners, and those printed by themselves for public information, without being able to find one word on these dividends or any allusion to them; the inference seems inevitable of an intent to conceal them from Congress and the public. Surely the Congress of the United States will exact from applicants for its bounty, at least the homage of respect for truth, in the representations on which it is called on to act! The payment or amount of these dividends is not of so much importance as the duplicity and falsehood of the managers which it reveals. And the question comes right home to Mr. Huntington, personally, for the bargain was made with, and the promises made by him, and the reports from which it is suppressed bear his signature, and are distributed by himself and with his sanction. Failing to disclose the truth in a matter so material, their statements and those of their authors must be justly discredited in everything.

Denied authoritative information as to the motives for, or the source of this extraordinary dividend, which was paid to the stockholders without being earned by the company, declared by the board of directors or shown on the books of account, we are driven to conjecture; and the suggestion arises that they may be paid by one or more of the guilty directors or other persons interested in placating the dissatisfied stockholders and passing the refunding bill. This conjecture is not without probability, and if accepted, public opinion will not be apt to hesitate long as to the name of the distributor of such lavish

largess or in conjecturing its motive. A settlement made with the United States, embodied in an Act of Congress, which at the same time condones so many and such monstrous frauds, ensures his Southern Pacific road for eighty-eight years to come against the competition of the Central Pacific road, and gives to his dishonest ninety-nine years lease the sanction of the law of the land, may well be worth double or treble the sum required to pay these dividends—say $4,032,000.

Another probable conjecture is that the arrangement is designed to permit the English stockholders to sell out their holdings and shift the loss on other victims, which perhaps two years' time with dividends meantime at two per cent. per annum, may enable them to do. Such a course may seem to them preferable to litigation with an adversary whom they have been led to believe the only man capable of handling the U. S. Congress, and who, if this measure passes, will readily be credited with like power to "handle" the President, and thus capable of calling down on them the thunders of Olympian Jove in the shape of an executive option to call in the debt the instant if they dare to attack the lease which has been their ruin.

In any case for Congress, in face of the revelations here made, to pass a refunding act based as all such propositions are, on the supposed inability of the company to pay its debt—without a previous clear explanation and understanding of this transaction, whether it represents dividends or hush-money, would be to put itself in the position of appearing as either the dupe of designing men or their instrument in deceiving others. Neither position very desirable, or consistent with its own honor and dignity.

Other Assets of the Central Pacific Company.

There are other assets of the Central Pacific Company which, though not of such magnitude as those mentioned, should not be lost sight of. Among these there is a mortgage made April, 1889, for $16,000,000 under which the latest report shows $12,283,000 bonds issued. This mortgage covers a variety of scattered properties, the most important being the land in Mission Bay, San Francisco (30 acres), granted by the Legislature in 1868, for terminal purposes, and since enlarged by the closing of streets to nearly fifty. The variety of properties included in the mortgage suggests the intent to cover everything the company had left not specifically and safely covered before. These bonds have never made their appearance on the stock-exchange nor been dealt in by the public. The fact that an action was commenced by the Attorney General to vacate the patent for the Mission Bay lands, soon after its issue, which has been pending ever since, would be quite sufficient to prevent their sale to real investors, and hence it is perfectly safe to assume that these $12,283,000 bonds are in the hands of the old directors, under the name of some one of their numerous companies. There is no probability that they could pass an investigation as to their origin or consideration (issued in all probability to themselves under the name of a construction company, in their usual way), and investigation should be made, that the terminal grounds may be preserved to the company for the uses designed, not converted to private uses for warehouse property on which it will hereafter have to pay rent to its former directors and their heirs and assigns forever.

Another item of much less amount than that last mentioned which might be profitably investigated, rather perhaps as illustra-

tive of the methods of these people and the character of these annual reports on the presumption of the accuracy of which, Congress is asked to act, relates to one of the sinking funds of the Central Pacific Company, and the story as derived from the reports themselves is about as follows:

When Messrs. Huntington and associates commenced the railroad business, being somewhat inexperienced, they appointed trustees to manage their sinking funds, and for the Central Pacific Land-grant mortgage of 1870, two gentlemen were named of known responsibility and wealth. Probably requiring some little time to attend to their own affairs, and as the accounts of the land sales, bonds, redemptions, etc., were kept in the railroad company's office, and everything ran smoothly, they appear to have imitated the great Grecian poet, and to have *nodded*—just for a moment. During this moment of somnolence some one, more vigilant than they, got away with no less than $2,500,000 of the money belonging to the sinking fund! The trustees of course awoke in time, and there was probably a disturbance, or at least an *eclaircisement*. Of these particulars we are not informed, but the published reports disclose that a settlement was reached in pursuance of which the Central Pacific Company gave to the trustees of the Land-grant mortgage its five notes for five hundred thousand each, payable in one, two, three, four, and five years, with interest at four per cent. per annum, to supply the deficit. (Vid. Rep. of 1891, p. 100.) These notes were sacredly "pledged the redemption of the bonds," as the money they represent was pledged before it was eloigned; and as the bonds drew six per cent. interest, and the notes but four, the equitable consideration extended by the creditors to the gentlemen who had taken their money, and the profit made by the latter by the transaction, may be readily calculated. What is unexplained about the settlement is that the notes were executed by the Central Pacific Company, yet the next page informs us (and subsequent reports confirm the statement) that the interest on these notes is paid by the Southern Pacific Company! If the Central Pacific Company did not get the two and a half millions of principal taken, why did that company give its notes for the amount? And if it did get the principal, why does the Southern Pacific (which is not strictly a benevolent institution) pay the interest? These are *queries* which probably none but Mr. Huntington himself can answer. The facts indicate crookedness.

Other objections to the proposed extension of time which time forbids us to dwell on, are:

V. The fact that such course necessarily involves a prolongation of the life of the Central Pacific Railroad Company, which is a California corporation for many years beyond the legal term of its existence, without reasonable necessity for such action, and distinctly against the will and protest of the people of the State, from which it derives its life and being. We are not disputing the power of Congress for federal purposes to do such an act if in its judgment necessary, but without necessity it should not be done. Independent of the overriding of the authority of the State government over its own creature, such an act will create a body politic without any defined limitations on its corporate powers, or any law governing its methods of proceeding, its rights with regard to its shareholders or their liabilities, and the charter of which could not be forfeited by any court, State or Federal,

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no matter how gross its offences. No State court could interfere because the concern would be a Federal corporation; and no Federal court could act because the United States have no statute on the subject.

VI. This Central Pacific Company under its past and present management has come to be the most odious and detested corporation that has probably ever been known, and this "for reasons, capital, confessed and proved." It has invented and put in force more, and more different modes of vexations in transportation, than probably any other in the world, and *we* have always been the sufferers. At one time goods ordered from Eastern points for the interior of California or Nevada, on the line of the road, had to be hauled to San Francisco and back to destination, to swell the cost. By special favor and on payment of the whole freight both ways, the interior merchant might obtain permission to have his goods delivered as they passed his door. At another time they imposed a protective duty of a cent a pound on refined sugars coming here from the east, and, as believed, for a consideration of $100,000 paid by parties interested. The charge was publicly made* at the time by responsible parties and never denied. Silence under such circumstances amounted to an admission. At another they introduced here a system of special contracts to be enforced by boycotting,† which if long continued would infallibly have riven our community into two hostile factions. This infamous and doubtless illegal special contract system was broken up by the construction of competing roads, but by their system of leases they undoubtedly aim to revive it. By their omnibus lease and the lease of the Central Pacific road, they have united practically all the roads in the State under the management of a foreign corporation which in turn is under the control of a single individual, whose greed has no limits and who avows that he has no other or higher standard of right than his own opinion. He has never made public his general code of morals, if he has any, but in letters to his former associate he exhibits his ideas on procuring congressional legislation, to be in brief, to bribe those who will accept and vilify those who will not.

By this combination they, for years, simultaneously withheld payment of railroad taxes, unhinging the machinery of the State Government and throwing the public service out of gear. Public schools closed, supervisors, legislators and executive officers bribed, injunctions defied, and all this under the pretence of ascertaining the constitutionality of an enactment procured by themselves and passed for their benefit. When however the opportunity of a decision presented itself fleeing from the ordeal. A history of all these offences would unduly expand this memorial, and they must be passed over with mere mention. But the tax litigation was so grievous an injustice to the State, and the dishonorable and collusive manner in which it was managed are so susceptible of, record proof that we give it briefly, as follows:

Thirteen Years' Litigation over a Scheme of Taxation Enacted at their Own Suggestion and for their Benefit—Collusive Suit—Impositions Practiced on U. S. Courts—Etc.

In 1879 a provision was incorporated in our State constitution, excepting railroad mortgage bonds from the general rule for taxing moneys invested on mortgage. It was done at the instance of the railroad

* See *The Nation* (N. Y.), December 8, 1881, pp. 452, 453.
† For details, see *The Nation* (N. Y.), August 11, 1884, pp. 113, 114.
See this pamphlet, pp. 25–29.

people themselves, to enable them to sell their Southern Pacific bonds, which, if subject to local taxation in California, would obviously have been impossible. The measure was introduced in the convention by Mr. Henry Edgerton, one of their standing counsel; stated by him to be satisfactory to his clients, and passed without amendment, *nem. con.* The taxes of 1880 having been levied under it, the companies refused to pay, and when suits were brought they removed them to the Federal court, claiming that the exception thus enacted at their own instance was in conflict with the 14th amendment of the United States Constitution. They affected a wish to waive all other controversy and try this constitutional question only. To secure control of the litigation, they procured a collusive suit to be brought by the Supervisors of San Mateo County (to whom they loaned the amount of the county taxes, on terms evidently corrupt on their face) in which the facts were admitted by demurrer, in a shape presenting apparently a case of hardship so great, as to lead the Circuit Court of the United States to decide in their favor. The false coloring given to the facts was then exposed in the press, and attracted the notice of the Judges of the Supreme Court, who when the case came before tham, declined to decide it in the shape presented, and desired the facts developed by a trial and proofs. Several other cases were then tried contradictorily and appealed, all of which were determined on other grounds, petty quibbles of a trifling character, and without touching the great Constitutional question which had been made the pretext for their removal from the speedier adjudication of the State Court. Finally years having gone by; and the Supreme Court having in the course of this experience become acquainted with the whole matter, intimated its readiness to decide the San Mateo County case, if the parties would resubmit it. But as may be seen from the opinions of the court below and the argument of Mr. Roscoe Conkling, on the appeal, their main reliance in the support of the constitutional objection was the extreme hardship of the case, as presented on demurrer, and that mask having been torn off by the development of the actual facts, a decision by the Supreme Court became the last thing the railroad people wanted. The adversary which had been so obliging as to commence and prosecute the suit with the money in its own treasury, *and lose it*, was equally obliging and compliant in the matter of the appeal; the San Mateo supervisors promptly telegraphed to Washington, a dismissal of the writ of error, which the Supreme Court allowed. Then the State itself brought a suit wherein this Constitutional question was presented alone. It also went to the U. S. Supreme Court on appeal; but again they frustrated a decision by paying the tax and penalties in full, just in time to oust the court of jurisdiction, by destroying the subject of controversy. There is no honesty or good faith in them. The controversy lasted in various forms from 1880 to 1893, when the Legislature after an appeal by joint resolution to the Supreme Court to advance the pending case, finally from mere weariness and despairing of a decision on the merits passed an act for re-assessing the roads. The railroad combination was stronger than the State; they now ask Congress to strengthen them still further by a congressional charter with undefined (and therefore unlimited) powers and by reserving its whole policy on Pacific roads for a century to come. See,

San Mateo County *vs.* Railroad Company, 8 Sawyer's C. C. Repts., 228.

San Mateo County *vs.* Railroad Company, 116 U. S. Rep., 136.

San Bernardino County *vs.* Railroad Company, 118 *id.*, 417.
Santa Clara County *vs.* Railroad Company, *id. ib.*, 394.
S. P. R. R. Company *vs.* California, *id. ib.*, 109.
Laws of California, 1893, pp. 290 and 618.
California *vs.* Railroad Company, 149 U. S. Rep., 308.
Railroad *vs.* California, 162 U. S. Rep., 91-167.
California *vs.* Railroad, 105 Cal., 576.

The detailed history of this episode is presented for the information of any interested in an appendix hereto.

Goaded by provocations such as those here adverted to,—and they are but specimen cases to which similar ones are of constant occurrence,—the people of California have long looked forward to the expiration of the charter of the Central Pacific road, for delivery from this body of iniquity, *at least for their children;* and on their behalf we respectfully and earnestly entreat Congress not to pass any act which will continue down to the coming generation any part of the offense, outrage and oppression which we have endured from this iniquitous combination now called the SOUTHERN PACIFIC COMPANY. Deprived of the management and power to continue to plunder the Central Pacific road, it can hardly fail to go to pieces and relax its grasp on the vitals of our State.

It may almost be said that all the known operations of the Pacific railroad management in this State are saturated with fraud and dishonesty which recur at every turn of their procedings.

Defrauding the Government and the Public by Failure to Build the Road Contracted for—The Contracts Entire.

Take for example the construction of the Southern Pacific road, of which we have spoken above. Its map, which preceded construction, showed a road from San Francisco southwards through the Santa Clara Valley, to a point where it was to commence the ascent of the pass over the Coast range after crossing, which chain of mountains it was to extend through the upper San Joaquin Valley, and so on to the State line on the Colorado River. To aid in the building of this road, they obtained a land grant of over ten million acres. The road was designed by congress to be a competing line to the Mississippi river and to connect the two richest valleys of the Pacific Coast, and its finest Sea port, by an independent and continuous line of rail with the waters of the gulf of Mexico. No object less important could justify the extravagant bounty of Congress, and evidently from the n ture of the object and the means adopted, *the contract was an entire one.* The whole road mentioned was to be built for the whole subsidy. Of the road to be furnished about a hundred to a hundred and fifty miles were devoted to crossing the pass in the coast range and thus connecting the two valleys and five hundred or so ran through them, over a soil as rich as possible and as level as the beds of the rivers that drained them. It was not for building through this valley country that Congress offered its bounty; that constituted no part of the inducement, for these very parties had already built a hundred and fifty miles of road up the San Joaquin, for the profit derived from building it at $26,000 a mile and bonding it for $40,000 and they were going further. The consideration for the land grant was the construction of the road over the mountain pass which was highly important from military as well as commercial considerations.

For this the bounty was offered and the difficult character of the work was its justification. What did these honest gentlemen do? They built the valley parts of the road on both sides of the pass, and drew and alienated the rich land fronting on it, leaving the connecting road from Tres Pinos to Alcalde (some 100 miles) unbuilt and it so remains to day. And this omission was no accident or afterthought, but intended from the first; Charles Crocker writes to Colton his partner, under date of February 12th, 1875 (Colton Transcript, p. 1621), and after referring to a suggestion of Colton's to "build 20 or 40 miles on the east side of the San Benito pass, and then go to Congress for a change of line," says: "We intend to build from Goshen to Los "Gatos close up to and into the eastern base of the mountain to a coal "mine there; *and we have never intended anything else* and no "portion of the old line will remain unbuilt, except that through the "mountains, about 50 miles," etc., (it is in fact 100 miles.) * * * * "I had supposed that that you fully understood this; *Huntington does understand it.*"

This being so, on their own confession made as early as 1875, what sort of faith were they practising when they solicited and accepted from Congress a land grant of over ten million acres of rich valley land as the price of doing this work, which they confess they never intended to do? Is this the sort of good faith Mr. Huntington is using in treating with Congress to-day? Are his present representations and promises to be measured by it? It certainly appears to satisfy the standard of morals he proposes for his conduct in his sworn examination before the Senate committee shown in Senator Morgan's report, page 173.

Out of one wickedness proverbially springs another, and "bad begun makes strong itself by ill." This truth is illustrated in the present instance by an imposition on the financial public as wicked as that practiced on the Government. In building the Southern Pacific road mortgage preceded construction, as already shown, and the mortgage of 1875 covered as we have said the whole road in this State, existing and contemplated, from San Francisco to the Colorado river.

The route being afterwards opened for through traffic, the holders of Southern Pacific sixes of 1875 placidly repose in the belief that their bonds are a lien on the continuous traveled road, the "through line." This is a mere dream; their mortgage is on two distinct roads: the one from San Francisco to San Miguel, the other from Alcalde to Fort Yuma, and these are separated from one another by the mountain chain above mentioned, the pass over which rises to 1,934 feet above tide, to build over which will cost not less than six millions! Without such connection the two separate roads are of but trifling value compared to the amount of the mortgage bonds, and the latter are a fraud on the public. There are about thirty-two millions of them outstanding!

In nearly similar plight are the bonds of the same concern last issued, called "First consolidated fives of 1893." That mortgage is a first lien on fragmentary roads leading practically from no place to no place, and useless without other roads which are otherwise mortgaged. These are practical examples of Mr. Huntington's moral standard.

Again; take the matter of terminals, one of extreme importance to every railroad, and specially so to one of considerable length. The State, twenty-eight years ago (1868) granted sixty acres in the city of San Francisco, to the two Pacific roads, for terminal purposes; and by the closing of streets this area has since been enlarged to a hundred acres. The only use to which in these twenty-eight years they have

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put these terminal grounds, is to mortgage them for $16,000,000. The real terminus in San Francisco is and has been for twenty years past, at the corner of Third and Townsend streets, on a block of ground 825 x 550 feet, *belonging to the Southern Pacific Company (of Kentucky)*. The same concern owns the adjoining blocks used for the receipt and delivery of freight. Not a square foot is owned by either of the railroad companies that use it. No rent is found charged for these premises, in their reports or anything to indicate that they do not own the land, a fact the knowledge of which might alarm bond holders. But whenever the mortgagees foreclose and make title to the railroad entering San Francisco, the purchasers will succeed only to the right of way and track, along the public streets as far as the corner of Fourth and Townsend streets, where a gate on the line of the Southern Pacific Company's property will shut them out of the terminal grounds and compel them to discharge their freight and passengers on the public street, and then back the train a mile or two to the nearest turn-table to enable them to reverse the locomotive.

These are specimens of the way things are managed and financed by this concern, and the repeated occurrence of the like has caused those who know it best to doubt whether this Southern Pacific Company of Kentucky has ever been party to a single honest transaction.

The Central Pacific can be Reorganized on Safe and Solvent Bases, by Calling in the Sums Due it from Solvent Debtors.

The exigencies of space forbid further enlargement on this branch of the subject. Enough has been said to show the need of a thorough investigation of the relations of the Central Pacific Company to the parties who have so long held it in their grasp, and the enforcement of its just claims against them. This done it will be found that so far from being insolvent, the company can easily be reorganized as a great trunk line to the Pacific Coast, competing fairly with all others and on the basis of solvency and honest management, manifestly to the advantage of the government as a creditor and of its own stockholders. In any event the property, if it has to be sold, can be then offered with knowledge of what it consists of and what its earning capacity is—things at present absolutely unknown to any one but the Southern Pacific combination, who have for so many years past managed its affairs to its own destruction. It must not be forgotten to extend the payment or refund this debt as proposed is practically to sell the road to its present management on a credit of a hundred years, taking their promise to pay in small installments. Congress does not, nor does any of its members, or any executive officer of the United States, or indeed anybody, know what property you are selling. No inventory of it exists; and this ignorance *shuts off all competitive bidding*. It is now fairly established and undeniable that for numerous important purposes the Central route has decided advantages for through business over all others. All the products of this coast destined for Eastern points, valuable enough to pay for transportation by rail, give it the preference for climatic reasons. For passenger traffic which is 40 per cent. of the whole business,* it has

* The Central Pacific road used to furnish statements of details of through and local business, and of the amounts derived from freight, express, passengers and baggage, but since the year 1884 has withheld such information. From the printed report of December 31st, 1884, we learn that

the call over all the others—the Southern (Sunset) line is, in fact, discontinued during summer. It does not admit of doubt that each of the great trunk lines would be prompt to compete for the Central Pacific property, if offered at auction, *with inventory*. Without such it would not probably elicit any reasonable bids, for however large or valuable the property, no purchaser would be likely to count on receiving from the tenants, delivery of anything beyond the road itself, with a wretched skeleton equipment incapable of doing the business.

The stockholders of the road, who appear to have at last awakened to the necessity of enquiry into the wrongs perpetrated by their agents the directors, are organizing in defence of their property, and if they have an opportunity, will scarcely permit the trunk lines to be the only competitors at such sale. As indicated by their published proceedings, they are making intelligent efforts to help themselves and resume control of their property; they will probably effect a reorganization of the company. The people of California, so far from offering factious opposition to a reorganization which shall preserve the central road as an independent and competing line of transportation, managed by its actual owners, as designed by Congress, will heartily welcome it.

We believe that all these desired ends can be obtained by means of a foreclosure of the Government lien on the road. For this purpose, as the property lies in several different States, complete jurisdiction should be conferred on some one of the Courts of the United States, and the ordinary powers of the Court enlarged so as to enable it to ascertain and redress, in the foreclosure suit, all frauds practised on the company or its shareholders by the management or by their tools or confederates, and the application of any moneys recovered from such parties to the sinking fund in the United States Treasury. We therefore respectfully pray Congress to instruct its appropriate committees to prepare and report a bill to that effect.

We here resume briefly the grounds of our opposition to the pending measure to refund the debt of the Central Pacific Railroad Company to the United States (Senate Bill No. 2894, H. of R. Bill No. 8189.)

1. The recognition and confirmation of the ninety-nine-year lease to the Southern Pacific Company, reverses the settled policy of the United States, with respect to these Pacific railroads, as established by previous acts of Congress, and promoted by grants of the public domain of many million acres. It substitutes consolidation and monopoly for competition and freedom of trade; it gives over the Central road to the management of its great competitor in business, depriving the people of the West of the advantages of competition in transportation for which they have paid these people liberally, and Congress has subsidized them munificently.

The proposal is quite new; has never been publicly discussed, advo-

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the total earnings of the year were $22,166,106.00
of which 74 per cent. was from local business..... $16,216,902.00
and 26 per cent. from through business or..... 5,949,204.00

$22,166,106.00

Of the through earnings—
The receipts from passengers and baggage were .....$2,383,066.00 or 40 per cent.
and from freight and express..... 3,566,096.00 or 60 per cent.
The local business shows the same proportions between freight and passengers.

cated or even mentioned. It is furtively introduced in the 9th and 19th sections of the pending bill under the disguise of an advantage to the United States! In fact, it can serve no purpose but to confirm the grasp of the Southern Pacific Company on the Central road, and enable it by routing freight to starve the Union Pacific into obedience to its commands.

2. The proposed guaranty of the Southern Pacific Company is worthless; a mere illusion. That company owns no property worth speaking of which is not already mortgaged for vastly beyond its cost or value.

The Southern Pacific Company is a fraudulent and predacious concern, got up to perpetuate the control of dishonest directors of the Central Pacific Railroad Company over the road after they had sold their interest in it, and of absorbing the profits of that and other companies by means of fraudulent leases. So plain was this at its origin that *its original charter from the State of Kentucky forbid it to build or operate railroads within that commonwealth.*

3. The relief asked for the Central Pacific road is based on false suggestions and concealment of material facts. So far from being unable to provide for the payment of its debt to the government, it is possessed of assets of enormous value—collectable claims against its former directors for moneys and credits misappropriated by them, amounting to many millions. These should be called in and applied to the sinking fund. Asking indulgence here on the ground of poverty, its stockholders are receiving dividends on their shares to-day, and have the promise of their lessee and advocate that they shall be doubled as soon as the bill passes. The secrecy of this dividend, the fact that it has not been earned by the road, declared by the directors, if such be the facts, and that it is not shown on the books of the company, so far from redeeming it from the imputation of fraud, renders it more conspicuously objectionable. If this be the case, it is evidently "hush money" paid by the guilty parties to secure Congressional confirmation of the ninety-nine-year lease; and the sum agreed to be paid for it* (which is essentially a bribe to silence opposition) bespeaks the nefariousness of the transaction and the value attached to a condonation of it.

4. By passing this bill, Congress will prolong the life of this railroad company for some seventy years beyond the limit fixed for sit existence by the law of the State that created it. To do this without the consent of against the unanimous protest of the State, would be not only an act of gross discourtesy to the State of California, but a grave injury and outrage to her people, who have for the past twenty-eight years suffered at the hands of these managers outrage and wrong past all endurance, rendering it justly odious and detested of all men.

5. The management of the road has been continuous from the beginning; they have shown themselves by their published correspondence among themselves to be corruptionists of the worst kind.

6. They have broken faith with Congress, by soliciting and accepting a land grant as the consideration for building the whole S. P. road a hundred or more miles of which was over a mountain pass. They

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* One per cent. for 1895 (paid) ..... $ 672,000
Same for 1896 (paid) 672,000
Two per cent. each for 1897 and 1898 2,688,000

$4,032,000

have taken and appropriated the valuable part of the grant, and left the difficult mountain part of the road unbuilt. Their correspondence shows the breach of faith was intended from the beginning.

7. They have broken faith with the public in the same way as with the Government; borrowed thirty-two million dollars on the undertaking to build a continuous line of rail from San Francisco to the Colorado river, and left a mountain gap of a hundred miles of it unbuilt, and have even renounced the building of it.

8. Similar frauds in the matter of terminals. They are unreliable.

9. Refunding the Central Pacific debt is wholly unnecessary. The company can be reorganized on the basis of solvency if Congress will but authorize a receiver appointed in foreclosure to avoid all fraudulent conveyances; get in the assets of the company and apply such as are not needed for transportation purposes to the sinking fund in the U. S. Treasury.

10. As seventy-five per cent. of the revenues of the Central Pacific road are derived from local traffic, and from fifteen to eighteen per cent. more from California products seeking a market abroad, and goods brought from abroad for consumption for sale here, on all of which we pay the freight, the people of California feel that all of the plunder which its former directors are permitted by Congress to retain will be saddled on them. There is little doubt that as much as from twenty-five to thirty millions can be recovered from the sinking fund from Huntington and the Crocker estate; why should they be abandoned without an effort and saddled on the people of this State?

San Francisco, Cal., December 26, 1896.

On behalf of the people of California.

CHAS. ASHTON,	GEO. K. FITCH,	P. R. MARTIN,
JOSEPH BRITTON,	J. RICHARD FREUD,	A. MILLER,
W. M. BUNKER,	GEO. T. GADEN,	JAS. MADISON,
J. H. BARRY,	ADAM GRANT,	W. L. MERRY,
E. S. BARNEY,	H. E. HIGHTON,	G. W. MONTIETH,
J. M. BASSETT,	N. C. HAWKS,	MAX. POPPER,
T. V. CATOR,	W. W. THOMPSON,	E. A. PHELPS,
N. P. COLE,	I. J. TRUMAN,	TAYLOR ROGERS,
DR. FRANK CORNWALL,	J. C. JENS,	G. M. REYNOLDS,
W. M. COWARD,	WM. JOHNS,	C. A. SUMNER,
H. Y. COWELL,	J. C. JORDAN,	J. E. SCOTT,
H. L. DODGE,	J. LEGGETT,	C. M. SHORTRIDGE,
J. T. DOYLE,	OSCAR LEWIS,	F. J. SULLIVAN,
HON. J. L. DAVIE,	STEWART MENZIES,	L. STRAUSS,
B. F. DUNHAM,	C. A. MURDOCK,	I. UPHAM,
L. R. ELLERT,	M. McGLYNN,	HON. ADOLPH SUTRO.

The Committee of Fifty appointed by the monster meeting at Metropolitan Temple, December 7th, 1895.

ADOLPH SUTRO, Mayor of San Francisco, *Chairman.*

TAYLOR ROGERS, *Secretary.*

SUB-COMMITTEE ON MEMORIAL.

JOHN A. STANLEY,	JAS. D. PHELAN,
THOS. F. BARRY,	E. W. McKINSTRY,
JAS. M. BASSETT,	TAYLOR ROGERS,

JOHN T. DOYLE, Chairman.

EXTRACTS FROM "THE NATION," REFERRED TO ABOVE.

(*The Nation, August* 11, 1881, *pp.* 113, 114.)

OVERLAND RAILROAD RATES.

To the Editor of The Nation:

Sir: Two paragraphs in the *Nation* of July 14 (No. 837, pp. 22, 23), indicate that you are but imperfectly informed as to abuses on the overland railroads. As you appear willing to aid in remedying them I give you some of the facts. The system of unlawful freight discriminations alluded to has not been recently revived; it has never for a moment been suspended since its formal introduction in the summer of 1878, but has been constantly enlarged and extended down to the present time, when it is more stringent and oppressive than ever before. The *modus operandi* is this: By arrangement between the Central and Union Pacific Railroad Companies the rates of Western-bound freights are fixed by the Union, and those of Eastern-bound by the Central Company. This arrangement is supposed to be nominal only; a sort of legal fiction to enable each concern to refer complaining parties to a "Mr. Jorkins," two thousand miles off; but that is the form of it. The Union Pacific Company has a printed classification of merchandise, and printed rates of freight for each class from New York and other Eastern points to San Francisco, ranging from $6 per 100 lbs. for first-class to $1.50 per 100 lbs. for Class D. These are declared to be the regular rates. But the Company enters into contracts with the merchants here to carry for them at *special* rates, much reduced from these regular ones, on condition that the merchant shall import all his goods by their line; not only such as are usually sent by rail or *via* the Isthmus, but also such as have heretofore, and naturally, come by sea around Cape Horn; and they make him bind himself to ship by their road, and by such connecting roads as their general freight-agent shall, from time to time, designate, all goods purchased by or for him, or shipped by or consigned to him, by his procurement, directly or indirectly, or with his knowledge and assent. The contracts declare that their object is to give to the Union Pacific Company the transportation of all goods *bought, sold, dealt in, or handled by* the merchant; and any act of his tending to defeat this object constitutes a breach, so that he cannot even buy in open market goods imported otherwise than by rail; and this rule is enforced. They also provide that these special rates are for his own exclusive benefit, and he must not allow the use of his nome or shipping marks by any one else. The freight must all be forwarded to Omaha by such carriers as are designated by the Union Pacific Railroad Company. They reserve the option (which is always exercised) of way-billing the goods and collecting freights according to the printed rates, agreeing to return the difference, on presentation of vouchers to the Central Pacific freight-agent at San Francisco, after the lapse of a reasonable time—say thirty days—for transmission, verification, etc.

All our leading merchants have been forced to enter into contracts of this description; the man who attempts to import his coarse goods by sea, relying on the rail for such as need more rapid transportation,

has to pay such rates on the latter that he cannot compete with his neighbors. He cannot even buy his coarse goods in open market here if they shall have come round the Horn, for that would defeat the "*bought, sold, dealt in, or handled by*" clause. Such goods and their importers are tabooed and "boycotted," and the merchant who touches them without leave of the railroad company can have no freight transported overland except at ruinous rates; even at such he is liable to casual delays, difficulties, and obstructions which, being unable to account for, his unregenerate nature attributes to malicious design.

The result is that ships obtain little or no freights from Eastern ports here; they have to come here in ballast, or half full, to load wheat for Europe, and our people are compelled to pay on their produce sent abroad a freight to cover the expense of the round trip. The standing forced loan exacted from our merchants, without interest, by collecting and after thirty days repaying the difference between printed and contract rates, may amount to half a million dollars; it operates oppressively to individuals, but to the community is of minor importance. But the tax levied on our exports in the form of enhanced freights to Europe is a monstrous and shocking wrong. In the absence of full statistics it is impossible to compute its amount, but it is probably equivalent to about four dollars per ton on the exportable crop of the State. San Francisco, under this nefarious system, has degenerated from the rank and position of a maritime city open to the commerce of the world to that of an interior town some two thousand miles west of St. Louis, approachable only over deserts and mountains.

With these facts before you, which are known to every well-informed man in San Francisco (except, of course, the Railroad Commissioners), you can understand why the tide of prosperity which has spread over the rest of the Union during the last few years has never yet reached California, why all business has been depressed and real estate has been steadily falling in value ever since the overland roailroad was completed. Perhaps, too, you will regard with more leniency the mistaken hostility to corporations (especially railroads) which has found expression in some of our recent legislation. Grant that it is unphilosophical, ill-directed, stupid, and in some respects unjust—that was not its intention; but people who have been so long and sorely oppressed as ours have been by the present monopoly cannot always reason cooly or justly as to the remedy, and in their anger seize any weapon at hand careless whom else they may hurt, provided they can inflict a blow on their chief enemy.

You suggest an appeal to the courts—at least, so I understand your words "proceed against with all vigor;" but who can proceed against them, and how? I defy any lawyer to point out a remedy, under existing laws, of the slightest value to the individual aggrieved. Our Railroad Commissioners, if so disposed, could doubtless do much on behalf of the public, if not to break up, at least to expose the wrong. But the eyes of justice, you know, are bandaged, and they can only know what is officially communicated to them and duly proved by witnesses, and their governing majority has just completed a set of rules for proceedings before them well calculated to aid them in remaining ignorant of all public abuses of the kind. No individual merchant dare sue, complain, or even let it be known that he is dissatisfied, lest he should be straightway put at a ruinous disadvantage with his competitors in trade. His business would be broken up before he could get his first case set for trial, and his family might starve

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while he was awaiting the result of new trials and appeals. The way of a man who enters into litigation with a company that keeps all the leading law-firms under standing retainers, most of the leading journals by some means quieted, and which finds in legislators, railroad commissioners, and auditors of railroad accounts its serviceable friends, is too hard to be voluntarily pursued by any man in business.

There is but one remedy for this monster grievance which oppresses the whole Pacific Coast. The power so to oppose must be absolutely taken from the companies. For this purpose it is not necessary to establish rates of freight by law; but the law should lay down a rule for their establishment by the companies, and, once established, they should be made public, and no deviation permitted. The organization of the roads in all their departments should be kept under constant and vigilant supervision by government, and any violation of law by railroad officials should be punished as a public offence. Actions for damages and like private remedies are wholly inefficient. Congress has ample power to remedy all evils in the overland system of transportation, for it is all built on Congressional legislation; and its just control of that system, judiciously exercised, could not fail to be attended with most beneficial results in the whole system of connecting roads.

The first thing needed is a Congressional committee of investigation, with ample powers and means to examine thoroughly into all existing abuses in the management of the Union and Central Pacific roads, and their leased and associated lines. The *Nation* cannot do a better public service than by aiding and enforcing through its columns the demand for such an investigation.

San Francisco, July 28, 1881. John T. Doyle.

(*The Nation, December* 8, 1881.)

OVERLAND RAILROAD RATES.

To the Editor of the Nation:

Sir: Since the publication of my letter on overland railroad rates in the *Nation* of August 11, Mr. Charles F. Adams, Jr., has called my attention to the origin of the system of special freight contracts and unlawful discrimination in freight charges, as set forth in the report of the Government Directors of the Union Pacific Railroad for the year ending June 30, 1878. I quote from page 15 of the document:

"In the month of July last, a sudden announcement was made that the tariffs on through-freighting business over the Pacific roads had been altered, and that, while the classification of certain articles had been changed, the rates upon others had been advanced from 50 to 100 per cent. The reason of this movement, which naturally excited surprise as well as indignation among those affected by it, was not at first apparent. It was, however, soon learned. It was purely strategic. The company did not really propose to raise its tariff rates; on the contrary, it was ready to slightly reduce them; but it did propose to take full advantage of its position to secure as much as possible of the transcontinental business. As a first step toward this, it practically did away with its open tariff, by the very simple process referred to. Under the open tariff, at the old rates, the larger business firms dealing between the two coasts had a choice of routes—that by water and that by rail. They, in practice, availed themselves of this option by sending their coarser freights, or those in regard to which time in delivery was immaterial, by water, at the lower rates; while the more costly wares, or those requiring immediate delivery, were forwarded overland. The object of the Union Pacific was to put a stop to this practice. This they did by largely raising their freights, which put an effectual stop to shipments under the open tariff, while, at the same time, they offered to all the large firms which would contract to make their shipments wholly by land, special rates at a reduction even

from those in force before the change. It was thus a distinct step backward; for it amounted to the abondonment of a published and open tariff in favor of a system of private special contracts.

"This move was, therefore, not only one of great importance, but it was open to serious objections. It was made, not by a petty local road, nor by a competing trunk line, but by a great, subsidized, continental thoroughfare. As such, it might naturally be inferred that it was made only after ample consideration, and with the authority of the full board of directors. It is, however, a fact singularly illustrative of the absence of that sence of public responsibility in which the policy of the Union Pacific is now shaped, that this measure, which practically put in irons the transcontinental business of the country, was devised by two freight agents, was never, before being publicly announced, submitted for consideration even to the executive committee of the board of directors, much less to the full board, and was finally put in force, to the utter surprise of the public, on the verbal authority, so far as can be ascertained, of the president and a single director.

"It is unnecessary to comment on such a method of corporate management. It speaks for itself. Meanwhile, so far as the measure is concerned, the objections to it are apparent. The through-business over the Union Pacific is mainly done by large houses. This is natural enough, for such houses can, of course, do it most cheaply. The measure under discussion, however, made it impossible that this business should be done by any but the large houses. They have special contracts covering it at less than the published tariff rates. More than this, it locks up, in secrecy, transactions which more than all others should be public. The special contracts may be equal as between shippers, or they may not. The directors have every reason to believe that they are, but they none the less are lacking in that element of publicity which in such matters will always remain the one real safeguard against discrimination."

The contracts here referred to and so justly condemned did not contain the "boycotting" clause quoted in my former letter; they merely bound the merchant to transport all his freight by rail—viz: "all goods purchased by or for, and shipped or consigned to him by his procurement, directly or indirectly, or with his previous knowledge or consent;" he was still free to deal in goods which had reached here by sea, though he could not import them so himself. Next year or the year following, the "bought, sold, dealt in, or handled by" clause was introduced, which "boycotted" all goods not imported by rail, so far as the railroad companies' customers were concerned. *They were forbidden to buy, sell, deal in, or handle them.* Last January the railroad companies gave another turn to the screw, and introduced a clause which boycotts not only the goods, but the importers. The merchant who holds a freight contract with this company is "*firmly bound*" *not to sell or deliver goods to anyone who is in the habit of importing otherwise than by rail.* To show that there is no mistake about this humilating exaction, I enclose on a separate slip the text of the covenant, as well as that of the corresponding clause in the contracts of the preceding year. They are clipped from the columns of the *Grocer and Country Merchant*, a local trade journal which published them, with a vigorous protest, at the time they were forced upon our merchants. The space of the *Nation* is too valuable to insert them *in extenso* here; but let them go into your advertising columns with a note of reference. They divide the importing merchants of the whole Pacific Coast into two classes—viz.: those who bind themselves to import exclusively by rail and those who refuse to do so; *these two classes are forbidden by the railroad company to have any dealings with one another.*

I make no comment on this proceeding, for I have no language equal to it; but I hope that the *Nation* will do so, for I have reason to believe that it will not be without effect. I pass to another item of railroad management.

Sugar refining was introduced here in 1855, and soon grew to be a large and important industry. Even paying duty on raw stocks imported from Manila, it was found possible to manufacture here at a

profit, and compete with Eastern goods to the extent of the refined sugars and syrups consumed on this coast. The price was, of course, regulated by the cost of laying down New York sugars here. The Hawaiian treaty removed the duty from our raw stocks, and gave our refiners a clear advantage of two and a half cents per pound over their Eastern rivals. Still, Eastern crushed sugar had a slight preference, and could always be found in our market and at substantially the same price as domestic. Last January all this suddenly changed, and Eastern sugars disappeared from the market. The reason assigned was that the railroad companies had raised the freight on refined sugar from one cent per pound to two—a rate which forbade importations. The reader may be surprised that they should thus impose a protective duty (for that is evidently what it is) so high as to cut off their own revenue from the trade; but, though strong protectionists, they are not such fools as that. It now comes out that they received a full consideration for their action. The *Chronicle* of this city has brought out the fact, and it is uncontradicted, that the advance in freight is the result of a bargain with the principal refiner here, thinly disguised under the form of a transportation contract,* whereby, for a consideration of $100,000, they consent to impose this prohibitory duty on Eastern sugars for the current year. The *Chronicle* publishes statistics of sugar imported from the islands, etc., to show that through the operation of the treaty the Government loses about two million dollars per annum, while by the action of the railroad companies the people of this coast are mulcted about eight hundred thousand more in the enhanced cost of sugar. Its attack is mainly on the treaty and the refiner. Papers in the opposite interest defend the action of the railroad companies by the usual protectionist arguments, encouragement of home industry, etc. The whole public is, however, as it seems to me, more interested in a question back of this, and which I venture to think lies at the bottom of the whole railroad problem—viz: *What right has any railroad company to impose a protective duty on sugar or any other commodity imported from one State into another?* And what is the system of classification adopted by all our railroad companies as the basis of freight charges, but a system of protective duties under another name? The overland companies, by their scandalous imposition of this duty on sugar, have brought this question squarely to the front, and incidentally suggested the true remedy for such abuses. The latter, if you will permit, I should like to discuss hereafter.

JOHN T. DOYLE.

SAN FRANCISCO, November 23d, 1881.

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*The transaction is alleged to be in the shape of a contract to transport for the refiner 5,000,000 lbs. of sugar at two cents per lb. Of course they could not charge any dealer a less rate than that voluntarily paid by so large a customer, who pays his freight and is not at all particular as to the transportation of the goods!

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